
Program Memorandum Intermediaries

Department of Health and
Human Services (DHHS)
HEALTH CARE FINANCING
ADMINISTRATION (HCFA)

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CHANGE REQUEST 1578

SUBJECT: Salary Equivalency Guidelines Update Factors

This Program Memorandum (PM) updates the salary equivalency guidelines regulations published as a final rule in the *Federal Register* on January 30, 1998. The purpose of this PM is to provide additional adjusted hourly salary equivalency amount monthly inflation factors for critical access hospitals (CAHs) and CAH swing beds. The final rule was applicable for services furnished on or after April 10, 1998. In the final rule we provided monthly inflation factors for cost reporting periods beginning April 1998 up to cost reporting periods beginning March 2001. The final rule set forth revisions to the salary equivalency guidelines for Medicare payment for the reasonable costs of physical therapy and respiratory therapy services furnished under arrangements by an outside contractor. The final rule also set forth new salary equivalency guidelines for Medicare payment for the reasonable costs of speech language pathology and occupational therapy services, furnished under arrangements by an outside contractor. The guidelines are used by intermediaries to determine the maximum allowable cost of those services.

The salary equivalency guidelines implement statutory requirements found in section 1861(v)(5) of the Social Security Act, which specify that the reasonable costs for these services may not exceed an amount equal to the salary that would reasonably have been paid for the services (together with any additional costs that would have been incurred by the provider or other organization) to the person performing them, if they had been performed in an employment relationship, with a provider or other organization (rather than under such an arrangement), plus allowances for certain expenses that may be incurred by the contracting therapy organization in furnishing the services as the Secretary in regulations determines to be appropriate.

Salary equivalency guideline regulations are implemented in regulations at 42 CFR 413.106. The regulations apply to the services of physical, occupational, speech-language pathologists, and other therapists and services of other health specialists (other than physicians) furnished under arrangements with a provider of services, a clinic, a rehabilitation agency, or a public health agency.

In the preamble to our final rule we stated that, "The Balanced Budget Act (BBA) of 1997 provided prospective payment systems for skilled nursing facilities (SNFs), home health agencies (HHAs), and community mental health centers, which ultimately will eliminate the need for salary equivalency price restraints in those venues. In addition the BBA of 1997 contained various provisions which will move therapy payment from a cost basis to using the physician fee schedule for therapy provided in comprehensive outpatient rehabilitation facilities and outpatient rehabilitation facilities and by other providers furnishing Part B outpatient therapy services. This includes the therapy provided under Part B to nursing home patients, outpatient hospital services, and outpatient therapy services provided by an HHA to patients not under the HHA benefit. The BBA of 1997 also provided a \$1,500 annual limitation per Medicare beneficiary where therapy services are provided under the outpatient physical therapy benefit (which includes outpatient speech language pathology services) or occupational therapy benefit.

We believe that these new prospective payment systems, application of the physician fee schedules, and the \$1,500 annual limitation per Medicare beneficiary, when they are implemented, will override limiting payment of contracted therapy services to the salary equivalency guidelines because they will limit payment for contracted therapy services and should offer a strong incentive for providers to control costs. Therefore, we almost certainly will not be revising the salary equivalency guidelines in the future. Until the new payment systems are implemented for the different providers, this rule provides a monthly adjustment factor for May 1998 through April 2001. Also, for cost reporting periods beginning on or after May 2001, the schedules would remain in effect increased by the appropriate adjustment factor.”

Furthermore, regulations at 42 CFR 413.106(f)(3), Exception for Inpatient Hospital Services, state: “Effective with cost reporting periods beginning on or after October 1, 1983, the costs of therapy services furnished under arrangements to a hospital inpatient are excepted from the guidelines issued under this section if such costs are subject to the provisions of 413.40 or part 412 of this chapter. The intermediary will grant the exception without request from the provider.”

Therefore, inpatient hospital services paid under the prospective payment system or subject to the rate of ceiling increase are granted this exception. The following hospitals are also paid under special payment provisions and, therefore are not paid on the basis of reasonable cost and should be granted an exception from the salary equivalency guidelines: Hospitals that are reimbursed under State cost control systems approved under 42 CFR 403 and hospitals that are reimbursed in accordance with demonstration projects authorized under section 402(a) of Public Law 90-248 (42 U.S.C. 1395b-1) or section 222(a) of Public Law 92-603 (42 U.S.C. 1395b-1(note)).

However, after publishing the salary equivalency guidelines final rule we learned that CAHs or CAHs which furnish swing bed services are not subject to the limits found in regulatory provisions at 42 CFR 412 (hospital inpatient prospective payment system) or 413.40 (rate of ceiling increase). In fact, CAHs will continue to be paid on a reasonable cost basis. Further, section 203 of the Benefits Improvement and Protection Act of 2000, enacted on December 21, 2000, provided an exemption for CAH swing beds from the SNF prospective payment system. That section provided, “Notwithstanding any other provision of this title, a CAH shall be paid for covered SNF services furnished under an agreement entered into under this section on the basis of the reasonable costs of such services (as determined under 1861(v)).”

Based on the above, because CAHs and CAH swing beds are not paid under the inpatient prospective payment system or subject to the rate of increase ceiling, and continue to be paid on the basis of reasonable cost, the salary equivalency guidelines continue to apply to them. Therefore, we are providing the attached list of additional adjusted hourly salary equivalency amount monthly inflation factors for cost reporting periods beginning April 2001 through cost reporting periods beginning November 2010.

NOTE: In your next bulletin, please notify providers of this change. Also, interim payments should be processed based on these changes.

The effective date for this PM is cost reporting periods beginning on or after April 1, 2001.

The implementation date for this PM is April 1, 2001.

This PM may be discarded April 1, 2002.

These instructions should be implemented within your current operating budget.

For questions regarding this document, contact Jackie Gordon on (410) 786-4517.

Salary Equivalency Guideline Amount Monthly Inflation Factors For Critical Access Hospitals (CAHs) and CAH Swing Beds

Apr-01	1.10935
May-01	1.11250
Jun-01	1.11606
Jul-01	1.11963
Aug-01	1.12321
Sep-01	1.12655
Oct-01	1.12991
Nov-01	1.13327
Dec-01	1.13672
Jan-02	1.14019
Feb-02	1.14366
Mar-02	1.14659
Apr-02	1.14953
May-02	1.15248
Jun-02	1.15661
Jul-02	1.16075
Aug-02	1.16490
Sep-02	1.16796
Oct-02	1.17103
Nov-02	1.17410
Dec-02	1.17770
Jan-03	1.18131
Feb-03	1.18493
Mar-03	1.18732
Apr-03	1.18972
May-03	1.19212
Jun-03	1.19699
Jul-03	1.20187
Aug-03	1.20677
Sep-03	1.20899
Oct-03	1.21121
Nov-03	1.21344
Dec-03	1.21746
Jan-04	1.22150
Feb-04	1.22554
Mar-04	1.22772
Apr-04	1.22991
May-04	1.23209
Jun-04	1.23707
Jul-04	1.24206
Aug-04	1.24707
Sep-04	1.24923
Oct-04	1.25140
Nov-04	1.25358
Dec-04	1.25809
Jan-05	1.26262
Feb-05	1.26716
Mar-05	1.26956
Apr-05	1.27196

Salary Equivalency Guideline Amount Monthly Inflation Factors For Critical Access Hospitals (CAHs) and CAH Swing Beds (Continued)

May-05	1.27437
Jun-05	1.27970
Jul-05	1.28505
Aug-05	1.29042
Sep-05	1.29334
Oct-05	1.29626
Nov-05	1.29919
Dec-05	1.30333
Jan-06	1.30748
Feb-06	1.31164
Mar-06	1.31423
Apr-06	1.31682
May-06	1.31942
Jun-06	1.32419
Jul-06	1.32897
Aug-06	1.33377
Sep-06	1.33698
Oct-06	1.34019
Nov-06	1.34341
Dec-06	1.34786
Jan-07	1.35234
Feb-07	1.35682
Mar-07	1.35925
Apr-07	1.36168
May-07	1.36412
Jun-07	1.36943
Jul-07	1.37477
Aug-07	1.38012
Sep-07	1.38351
Oct-07	1.38692
Nov-07	1.39033
Dec-07	1.39469
Jan-08	1.39907
Feb-08	1.40346
Mar-08	1.40640
Apr-08	1.40935
May-08	1.41230
Jun-08	1.41736
Jul-08	1.42243
Aug-08	1.42752
Sep-08	1.43105
Oct-08	1.43458
Nov-08	1.43812
Dec-08	1.44288
Jan-09	1.44766
Feb-09	1.45246
Mar-09	1.45520
Apr-09	1.45794
May-09	1.46069
Jun-09	1.46678
Jul-09	1.47290
Aug-09	1.47904

Salary Equivalency Guideline Amount Monthly Inflation Factors For Critical Access Hospitals (CAHs) and CAH Swing Beds (Continued)

Sep-09	1.48157
Oct-09	1.48411
Nov-09	1.48666
Dec-09	1.49238
Jan-10	1.49813
Feb-10	1.50390
Mar-10	1.50662
Apr-10	1.50935
May-10	1.51208
Jun-10	1.51817
Jul-10	1.52430
Aug-10	1.53045
Sep-10	1.53391
Oct-10	1.53738
Nov-10	1.54086